

CIRCULAR

REGULATIONS ON METHODS AND PROCEDURES FOR FORMULATION, ASSESSMENT AND APPROVAL FOR ELECTRICITY TRANSMISSION PRICE

Pursuant to the Government's Decree No. 95/2012/ND-CP dated November 12, 2012, defining the functions, tasks, powers and organizational structure of the Ministry of Industry and Trade;

Pursuant to Law on Electricity dated December 03, 2004; Law on amendments to a number of articles of Law on Electricity dated November 20, 2012;

Pursuant to the Government's Decree No. 137/2013/ND-CP dated October 21, 2013 detailing the implementation of a number of articles of the Law on Electricity and the Law on amendments to a number of articles of Law on Electricity;

At the request of general director of Electricity Regulatory Authority,

The Minister of Industry and Trade promulgates regulations on methods and procedures for formulation, assessment and approval for electricity transmission price.

Chapter I

GENERAL PROVISIONS

Article 1. Scope and regulated entities

1. This Circular stipulates methods and procedures for formulation, assessment and approval for electricity transmission cost.
2. This Circular applies to Vietnam Electricity, National Power Transmission Corporation, system and market operator, Electric Power Trading Company, power corporations and customers who buy electricity directly from transmission system.

Article 2. Interpretation of terms

In this Circular, some terms are construed as follows:

1. *Delivery point* refers to a point of electrical energy delivery between National Power Transmission Corporation and power corporations and customers who buy electricity directly from the transmission system (hereinafter referred to as “customers”).
2. *System and market operator* refers to the unit that leads and controls electricity generation, transmission and distribution in the national electricity system, manages electricity market transactions.
3. *Electricity transmission price payers* include Electric Power Trading Company, power corporations and customers.
4. *Year N* refers to calendar year starting from January 01 to the end of December 31 of the year when the price takes effect.
5. *Year N-1* refers to calendar year preceding Year N.
6. *Year N-2* refers to calendar year preceding Year N-1.
7. *CPI* refers to consumer price index announced by General Statistics Office.
8. *Electricity transmission assets* include transmission grids, construction works and other utilities used for electricity transmission and owned by National Power Transmission Corporation.

Chapter II

ELECTRICITY TRANSMISSION PRICE DETERMINATION METHOD

Article 3. Electricity transmission price determination method

1. Annual electricity transmission price shall be applied in an uniformity across the country regardless of transmission and delivery point distance.
2. Electricity transmission price shall be annually determined on the principle of ensuring recovery of appropriate expenses and gaining permissible profits to maintain normal operation of the electricity transmission network as required and meet financial criteria for investment and development of electricity transmission network.
3. Electricity transmission price of Year N g_{TT_N} shall be based on total permissible electricity transmission revenue in Year N of the National Power Transmission Corporation and total generation output expected in Year N, and calculated in the following formula:

$$g_{TT_N} = \frac{G_{TT_N}}{A_{SL_N}}$$

Where:

G_{TT_N} : Total permissible electricity transmission revenue in Year N of the National Power Transmission Corporation (VND);

A_{SL_N} : Total generation output expected in Year N (kWh).

Article 4. Method for determination of total permissible electricity transmission revenue

Total permissible electricity transmission revenue in Year N G_{TT_N} including permissible capital costs G_{TT_N} , permissible operation and maintenance costs G_{TT_N} and adjustments to revenue in Year N shall be determined in following formula:

$$G_{TT_N} = C_{CAP_{TT_N}} + C_{OM_{TT_N}} - D_{GT_N}$$

Where:

$C_{CAP_{TT_N}}$: Total electricity transmission revenue permissible in Year N of the National Power Transmission Corporation (VND);

$C_{OM_{TT_N}}$: The National Power Transmission Corporation's total permissible costs for operation and maintenance of the electricity transmission network in Year N (VND);

D_{GT_N} : Adjustments to revenue in Year N including expected deposit interests in Year N of the National Power Transmission Corporation (based on deposit interests in Year N-2), expected receipts from disposal of fixed assets, materials and equipment in Year N (based on the disposal plan in Year N).

Article 5. Method for determination of total permissible capital costs for electricity transmission

1. Total permissible capital costs for electricity transmission in Year N $C_{CAP_{TT_N}}$ shall be determined in following formula:

$$C_{CAP_{TT_N}} = C_{KH_N} + C_{TC_N} + CLTG_{TT_N} + CLTG_{BGL_N} + CLTG_{CPB_N} + LN_N$$

Where:

C_{KH_N} : Total expenses for fixed asset depreciation expected in Year N (VND);

C_{TC_N} : Total expected financial expenses including short-term, long-term loans, bonds, finance leases and loan application fees in Year N for electricity transmission assets (VND);

$CLTG_{TT_N}$: Exchange differences expected to arise from payment of debt in foreign currency in Year N (VND);

$CLTG_{DGL_N}$: Exchange differences expected to arise from re-valuation in Year N (VND);

LN_N : Permissible profits from electricity transmission expected in Year N (VND).

2. Total expenses for fixed asset depreciation expected in Year N C_{KH_N} shall be determined according to the Ministry of Finance's regulations on useful life and fixed asset depreciation method.

3. Total financial expense expected in Year N C_{TC_N} shall be determined according to credit contracts, finance lease contracts for electricity transmission assets.

4. Exchange differences expected to arise from payment of debt in foreign currency in Year N $CLTG_{TT_N}$ shall be determined according to regulations on finance and accounting.

5. Exchange differences expected to arise from re-valuation in Year N $CLTG_{DGL_N}$ shall be determined according to regulations on finance and accounting.

6. Permissible profits expected in Year N (LN_N) shall be determined in following formula:

$$LN_N = V_{CSH_N} \times ROE_N$$

Where:

V_{CSH_N} : Owner's capital to June 30 in Year N-1 (VND);

ROE_N : Ratio between pre-tax profits and owner's capital in Year N applicable to National Power Transmission Corporation (%), shall be determined according to electricity retail price method or decisions made by competent agencies.

Article 6. Method for determination of total permissible expenses for operation and maintenance of electricity transmission network

1. Total permissible expenses for operation and maintenance of electricity transmission network in Year N $C_{OM_{TT_N}}$ shall be determined in following formula:

$$C_{OM_{TT_N}} = C_{VL_N} + C_{TL_N} + C_{SCL_N} + C_{MN_N} + C_{K_N}$$

Where:

C_{VL_N} : Total expenses for materials expected in Year N (VND);

C_{TL_N} : Total payroll expenses expected in Year N (VND);

C_{SCL_N} : Total overhaul expected in Year N (VND);

C_{MN_N} : Total expenses for outside services expected in Year N (VND);

C_{K_N} : Other cash-related expenses expected in Year N (VND);

2. Method for determination of expenses for materials

a) Total expenses for materials expected in Year N C_{VL_N} include expenses for materials within norm and expenses for materials in case of incidents, particularly as follows:

- Expenses for materials within norm: Engine oil, lubricants, grease, materials, tools, experimentation work, materials for regular repairs and maintenance, tools and materials for operation and maintenance of transmission lines, electrical substations, transformers, office work and other relevant costs;

- Expenses for materials in case of incidents refer to the expenses for materials used in case of unusual and objective events that are determined according to Vietnam Electricity's regulations.

b) Total expenses for materials expected in Year N shall be determined in following formula:

$$C_{VL_N} = A_{SL_N} \times DG_{VL} \times (1 + I_{G_N}) + C_{SC_N}$$

Where:

A_{SL_N} : Total generation output expected in Year N (kWh);

DG_{VL} : Norm of expenses for materials that are determined according to competent agencies' regulations (VND/kWh);

I_{G_N} : Price slippage in Year N is taken as equal to CPI in Year N-2 but does not exceed 2.5%;

C_{SC_N} : Expenses for materials in case of incidents expected in Year N (VND);

3. Method for determination of payroll expenses

a) Total payroll expense expected in Year N C_{TL_N} of the National Power Transmission Corporation including total payroll expenses and wage-related expenses;

b) Payroll expenses shall be determined according to regulations on management of labor, wage and bonus paid to employees and managers in single member limited liability companies of which 100% of charter capital is owned by the state;

c) Wage-related expenses: Electricity safety, medical insurance, social insurance, employment insurance and union fees that are determined according to relevant law provisions.

4. Method for determination of expenses for overhaul

Total expenses for overhaul expected in Year N C_{SCL_N} including expenses for electricity transmission network overhaul tasks determined according to the norms by competent agencies.

5. Method for determination of expenses for outside services

a) Total expenses for outside services expected in Year N C_{MN_N} :

- Expenses paid to organizations and/or individuals that provide following services: Electricity, water, telephone, telecommunication, books;

- Expenses for employment of audit consultants;

- Expenses for hire of property;

- Expenses for property insurance;

- Expenses for other contracted services to support management, operation and maintenance of transmission lines.

b) Total expenses for outside services expected in Year N shall be determined in following formula:

$$C_{MN_N} = A_{SL_N} \times DG_{MN} \times (1 + I_{G_N})$$

Where:

A_{SL_N} : Total generation output expected in Year N (kWh);

DG_{MN} : Norm of expenses for outside services determined according to competent agencies' regulations (VND/kWh);

I_{G_N} : Year N slippage index determined according to Point b, Clause 2, this Article (%).

6. Method for determination of other cash-related expenses

a) Total other cash related expenses in Year N C_{K_N} including: Other cash-related expenses within norm, other cash-related expenses for incidents, taxes, fees, charges, land rents and shift meal expenses;

b) Total other cash-related expenses expected in Year N determined in following formula:

$$C_{K_N} + A_{SL_N} \times DG_K \times (1 + I_{G_N}) + C_{SC_N} + C_{T_N} + C_{AC_N}$$

Where:

A_{SL_N} : Total generation output expected in Year N (kWh);

DG_K : Norm of other cash-related expenses that is determined according to competent agencies' regulations (VND/kWh);

I_{G_N} : Year N slippage index determined according to Point b, Clause 2, this Article (%).

C_{SC_N} : Other cash-related expenses for incidents expected in Year N (VND);

C_{T_N} : Taxes, fees, charges, land rents in Year N (VND);

C_{AC_N} : Expenses for shift meals in Year N (VND).

c) Other cash-related expenses within norm in Year N including: Business trips, conferences, guest reception; training; scientific research, initiatives, innovations; local militia, storm & flood prevention and combat, fire and explosion prevention; labor protection, working uniforms, labor safety, industrial and environmental hygiene; drinking water during working hours, in-kind bonus for night shift workers, people working in poisonous atmosphere; emergency medical treatment for occupational accidents, conventional medicine, rehabilitation for employees and recruitment.

d) Other cash-related expenses in Year N C_{SC_N} refer to other cash-related expenses used for unusual and objective events to be determined according to Vietnam Electricity's regulation.

dd) Taxes, fees, charges and land rents in Year N C_{T_N} that are determined on the basis of performance in Year N-2;

e) Expenses for shift meals in Year N C_{AC_N} that are determined according to current regulations.

Chapter III

PROCEDURES FOR FORMULATION, ASSESSMENT AND APPROVAL FOR ELECTRICITY TRANSMISSION PRICE

Article 7. Procedures for formulation, assessment and approval for electricity transmission price

1. National Power Transmission Corporation shall be responsible for formulating the electricity transmission price for Year N and submit it to Vietnam Electricity for approval, and report to the Electricity Regulatory Authority.
2. Before November 15 annually (Year N-1), Vietnam Electricity shall be responsible for submitting the electricity transmission price in Year N to the Electricity Regulatory Authority for assessment and approval.
3. The Electricity Regulatory Authority shall be responsible for assessing electricity transmission price documents and allowed to employ consultants to carry out the assessment in case of need. If the documents are found ineligible as prescribed in Article 8 herein, Vietnam Electricity shall be responsible for making supplements within five working days since receipt of the request from the Electricity Regulatory Authority.
4. Before December 05 annually (Year N-1), the Electricity Regulatory Authority shall be responsible for submitting the report on assessment of electricity transmission price in Year N to the Minister of Industry and Trade.
5. Before December 15 annually (Year N-1), the Minister of Industry and Trade shall grant approval for the electricity transmission price in Year N.

Article 8. Electricity transmission price documents

1. Written statement for approval for electricity transmission price in Year N.
2. Explanations and calculations of transmission price in Year N, including:
 - a) Analysis and assessment of performance of output generation targets, transmission loss ratio, revenues, expenses in Year N-1; analysis and assessment of achievement of profits, performance of equity capital, financial criteria such as return on equity, equity capital structure and loans, self-financing ratio, debt payment ratio until June 30 of Year N-1;
 - b) Explanations and calculations of total permissible capital costs in Year N $C_{CAP_{TN}}$ of the National Power Transmission Corporation, including:
 - Total expenses for depreciation in Year N: Summary of fixed asset depreciation in Year N and detailed calculation of basic depreciation of individual fixed asset types in Year N;
 - Total financial expenses and exchange differences in Year N: Detailed calculation of financial expenses, loan interests and exchange differences in Year N;
 - Equity capital estimated until the end of Year N-1 and expected in Year N: Explanations and detailed calculations of increase and decrease in equity capital in Year N-1 and Year N;
 - Profits, return on equity, self-financing ratio, debt payment ratio expected in Year N.
 - c) Explanations and review calculations of total permissible expenses for operation and maintenance in Year N $C_{OP_{TN}}$ of the National Power Transmission Corporation, including:
 - Total expenses for materials in Year N: Explanations and calculations of expenses for materials estimated in Year N-1 and expected in Year N as prescribed in Clause 2, Article 6 herein;
 - Total payroll expenses in Year N: Explanations and calculations of payroll expenses as prescribed in Clause 3, Article 6 herein;
 - Total expenses for overhaul in Year N: Explanations and calculations of expenses for overhaul in Year N as prescribed in Clause 4, Article 6 herein;
 - Total expenses for outside services in Year N; Explanations and calculations of expenses for outside services by work item estimated in Year N-1 and expected in Year N as prescribed in Clause 5, Article 6 herein;
 - Other cash-related expenses in Year N: Explanations and calculations of other cash-related expenses estimated in Year N-1 and expected in Year N as prescribed in Clause 6, Article 6 herein;
 - d) Explanations and calculations of total permissible electricity transmission revenue in Year N.
3. Accompanying documents:
 - a) Lists of investment projects expected to be put into operation until December 31 of Year N-1 and Year N (by month) in accordance with approved national electricity development master plan and annual electricity transmission network expansion plan by the National Power Transmission Corporation;
 - b) Summary of number of employees in Year N-1 and expected in Year N;
 - c) Lists of work items subject to overhaul in Year N-1 and expected in Year N;
 - d) Financial statements in Year N-2 audited by an independent audit agency: Balance sheets, business performance, cash flow statements, explanations;
 - dd) Norms for expense components in the documents approved by competent authorities.

Chapter IV

IMPLEMENTATION

Article 9. Payment under electricity transmission service contract

Vietnam Electricity or Electric Power Trading Company, power corporations and customers shall be responsible for making payment of electricity transmission price for National Power Transmission Corporation under the signed contract.

Article 10. Responsibility of relevant units

1. The Electricity Regulatory Authority shall be responsible for instructing and inspecting the implementation of this Circular and settling disputes arising therefrom.
2. Vietnam Electricity shall be responsible for directing National Power Transmission Corporation to formulate electricity transmission price on an annual basis as prescribed herein.
3. National Power Transmission Corporation shall be responsible for formulating annual electricity transmission price and submitting it to Vietnam Electricity for approval, and report to the Electricity Regulatory Authority as prescribed herein.

Article 11. Effect

1. This Circular takes effect since March 27, 2017. The Minister of Industry and Trade's Circular No. 14/2010/TT-BCT dated April, 2010 stipulating methods and procedures for formulation, promulgation and management of electricity transmission price; the Minister of Industry and Trade's Circular No. 03/2012/TT-BCT dated January 19, 2012 amending and supplementing a number of articles of the Circular No. 14/2010/TT-BCT shall become invalid since the effective date of this Circular.
2. Within 15 days since this Circular takes effect, Vietnam Electricity shall be responsible for making the submission of the electricity transmission price documents in 2017 as prescribed herein.

MINISTER

Tran Tuan Anh